Financial Markets Committee (FMC) Meeting
27 June 2024
Bank Negara Malaysia

Summary

The meeting discussed recent domestic financial market developments with a focus on the ringgit foreign exchange market.

1. Appointment of new FMC member

1.1 FMC Chairman Adnan Zaylani welcomed Puan Nor Hanifah Hashim from Franklin Templeton Malaysia as the new FMC member.

2. Domestic financial market developments

2.1 Broad dollar strength has been observed recently as market participants adjusted their expectations from six Fed rate cuts earlier in the year to only one to two in 2024, contributing to volatility to the market.

2.2 Despite expectations of only one to two Fed rate cuts in 2024, the meeting noted that the ringgit has remained resilient, depreciating by only 2.6% against the dollar YTD, ranking 3rd among 10 regional currencies[1].

2.3 Since 26th February, the ringgit is the only currency that has appreciated against the dollar, strengthening by 1.3%. This is a testament to the positive impact of the coordinated actions undertaken by the Government and BNM to encourage more consistent and timely inflows by government-linked companies (GLCs) and government-linked investment companies (GLICs). Members also acknowledged BNM's presence in the FX market to ensure orderly conditions.

2.4 The meeting noted BNM's efforts in engaging with corporates to manage their FX flows, including a pilot programme to repatriate foreign currency balances and facilitate fast-track approval for future investments abroad. The programme will be expanded in the future.

2.5 Critically, the meeting also noted that the historically high correlation between the ringgit and the renminbi has declined significantly.

2.6 Domestic financial conditions remain orderly with the Malaysia Overnight Rate (MYOR) tracking the OPR closely amid ample liquidity conditions.

[1] INR (-0.4%), CNY (-2.3%), SGD (-2.8%), TWD (-5.7%), PHP (-5.9%), IDR (-6.1%), KRW (-7.3%), THB (-7.3%), JPY(-12.3%)

3. Structural reforms

3.1 The meeting acknowledged Malaysia's continued commitment to structural reforms. The diesel subsidy rationalisation was noted to be well received and served to combat leakages and reinforce the government's commitment to fiscal discipline. Members also highlighted the importance of ensuring an effective communications strategy and implementation regarding the potential future rationalisation of RON95 petrol subsidies.

3.2 The meeting noted that the government's recent efforts to attract high quality investments, including renewable energy initiatives under the National Energy Transition Roadmap (NETR) and data centre infrastructure projects, have been successful in attracting new foreign direct investment (FDI). However, members also observed other shifts in FDI flows, particularly in the manufacturing sector, to other lower cost countries in the region.

3.3 Reflecting continued investor confidence on Malaysia's economic prospects, the 10-year MGS yields have traded within a range of 3.70%-4.00%, while foreign holdings of Malaysian government bonds have been steady at around 22%, despite the MGS-UST spread becoming slightly more negative. Malaysian equities have also outperformed regional bourses with a gain of 9.4%[2].

4. Ringgit outlook

4.1 The meeting agreed that the ringgit does not reflect Malaysia's strong macroeconomic fundamentals such as robust GDP growth and moderate inflation. Members viewed that the ringgit has significant potential to appreciate and be among the top beneficiaries of US rate cuts, given the excessive movement during the rate hike cycle. Members also noted that foreign sentiment remains positive and has improved further on the back of collective investor engagement efforts by the Government, BNM and industry players.

4.2 On balance, the meeting was optimistic for the ringgit's near-term outlook. While headwinds remain, including geopolitical risks, uncertainty over the US rate hike trajectory, as well as timing and extent of further domestic subsidy rationalisation, members expressed confidence that continued domestic market stability and the concerted efforts of all parties involved would eventually result in a stronger performance for the ringgit. The meeting noted that the latest median Bloomberg forecast for USD/MYR stands at 4.65 for end-2024 and 4.45 for end-2025.

[2] Singapore: +2.8%, Philippines: -2.1%, Indonesia: -5.0%, Thailand: -6.9%